

A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Somerton Elementary School District No. 11

Year Ended June 30, 2007



Debra K. Davenport
Auditor General

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Accounting Services Division Staff

Jerry Strom, Manager and Contact Person
jstrom@azauditor.gov

Valerie Deaton
Meghan Gouker

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

January 29, 2009

Governing Board
Somerton Elementary School District No. 11
P.O. Box 3200
Somerton, AZ 85350-3200

Members of the Board:

We have reviewed the District's audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2007, prepared by Heinfeld, Meech & Co., P.C. to determine whether the District substantially complied with the USFR.

As a result of our review and our performance audit of the District dated May 28, 2008, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Jerry Strom, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

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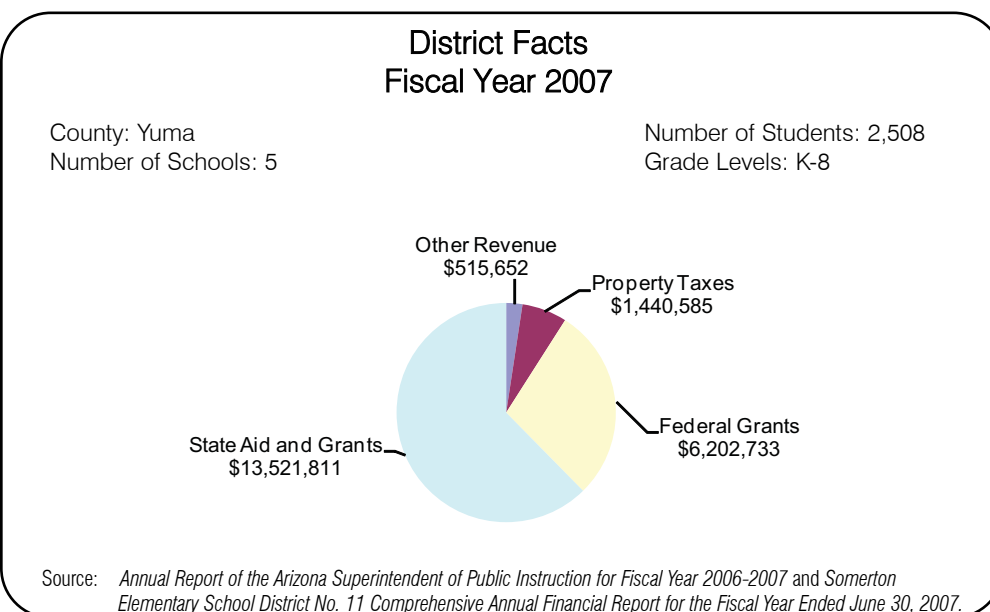
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INTRODUCTION

Somerton Elementary School District No. 11 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$21.6 million it received in fiscal year (FY) 2007 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's audit reports and USFR Compliance Questionnaire for the year ended June 30, 2007, and our performance audit dated May 28, 2008, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



FINDING 1

The District should ensure the accuracy of its accounting records

The District's Governing Board depends on accurate financial information so it can fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. To achieve this objective, management must have strong internal controls to ensure that its accounting records are reliable. However, the District did not fully accomplish this objective. Specifically, the District did not reconcile its records of cash balances monthly with the County School Superintendent's (CSS) records, revenues and expenditures were not reconciled to the CSS' records at year-end, and the District did not ensure that its records of cash balances were properly reconciled to the County Treasurer's records. In addition, although the District has not been approved to operate under an Accounting Responsibility Program, the District inappropriately printed all payroll and accounts payable warrants independently of the CSS' Office. Also, the District did not have adequate security or password controls over its accounting system, which allowed individual employees the ability to initiate and complete a transaction without an independent review and approval, and preparers of purchase orders had access to the electronic signature used to authorize purchases.

Further, the District did not maintain its accounting records in accordance with the USFR Chart of Accounts as revenues and expenditures were miscoded, unauthorized transfers were made, and interest revenue was incorrectly recorded in the Bond Building Fund. In addition, the District did not always retain supporting documentation for journal entries. Finally, the District paid Classroom Site Fund (CSF) monies to employees who were not identified as eligible to receive monies in the District's plan, paid CSF performance pay monies when performance goals were not achieved, and did not always retain documentation to show that performance goals were met.

Incorrect expenditure coding resulted in the District's overreporting instructional expenditures by approximately \$113,000 and underreporting administrative expenditures by approximately \$378,000.

Recommendations

To ensure the accuracy of its accounting records, the District should:

- Reconcile cash balances by fund to the CSS' records at least monthly and reconcile total revenues and expenditures by fund, program, function, and object, from its accounting records to the CSS' records at least at fiscal year-end.

- Ensure that cash balances are reconciled to the County Treasurer's records at least monthly by either the District or the CSS.
- Stop independently issuing its own warrants as only districts with student counts of at least 4,000 that have been approved to operate under an Accounting Responsibility Program may assume responsibility for various accounting and administrative functions that are otherwise performed by the CSS, such as authorizing and issuing warrants.
- Establish and implement proper access controls over accounting systems so that individual employees do not have the ability to initiate and complete a transaction without an independent review and approval. Require users to change assigned passwords to confidential ones and to change passwords periodically.
- Require purchase orders to be approved by an employee other than the preparer.
- Classify all financial transactions in accordance with the USFR Chart of Accounts and transfer monies between funds only as specifically authorized by statute.
- Record interest earned from the investment of the Bond Building Fund monies in the Debt Service Fund. Interest may be credited to the Bond Building fund only if specifically authorized by voters.
- Ensure each journal entry contains explanations, attachments, or references to documentation that supports the entry, and the signature or initials of the individual making the entry and the official authorized to approve it.
- Ensure that compensation increases from CSF monies are paid only to eligible employees, in accordance with statute and the District's adopted plan.
- Establish performance measures and retain supporting documentation that CSF performance pay is awarded only when those goals are achieved.

USFR §III provides guidance for classifying financial transactions.

FINDING 2

The District should strengthen controls over competitive purchasing and expenditures

Expenditures in the Unrestricted Capital Outlay Fund for FY 2007 exceeded budget by more than \$350,000.

The District spends public monies to purchase goods and services. It is essential that the District follow School District Procurement Rules and USFR guidelines designed to help ensure that the District receives the best possible value for the public monies it spends, and that its expenditures are appropriate, approved, and adequately supported. However, the District did not follow the School District Procurement Rules or the USFR guidelines. For example, the District did not always obtain oral and written price quotations for purchases requiring them or perform due-diligence procedures for a sample of purchases made through purchasing cooperatives. Additionally, the District did not ensure that there was sufficient budget capacity available before authorizing expenditures from budget-controlled funds. Finally, when issuing its only request for proposals (RFP), the District did not obtain a written determination from the Governing Board that the use of competitive sealed bids was either not practicable or not advantageous to the District and did not include all applicable factors in the RFP.

Recommendations

To strengthen controls over competitive purchasing and expenditures, the District should perform the following:

- Obtain oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000, and written price quotations from at least three vendors for purchases estimated to cost between \$15,000 and \$33,689. If three price quotations cannot be obtained, the vendors contacted and their reasons for not providing quotations should be documented.
- Perform and document due-diligence procedures on at least a sample of the purchasing cooperatives' contracts that the District wishes to use.
- Verify that sufficient budget capacity is available in budget-controlled funds and sufficient cash is available in cash-controlled funds before authorizing expenditures from them.

Guidelines for oral and written price quotations can be found on USFR pages V-G-8 and 9.

- Retain a written determination from the Governing Board that the use of competitive sealed bidding is either not practicable or not advantageous to the District before issuing an RFP.
- Include all applicable factors listed in the School District Procurement Rules in its RFPs and retain all supporting documentation, including the justification for selecting a vendor for RFPs.

FINDING 3

The District's controls over cash receipts and bank accounts should be improved

Poor cash controls left district and student monies susceptible to loss, theft, or misuse.

The District receives monies from various sources, including food services and student activities. Because of the relatively high risk associated with cash transactions, the District should maintain effective internal controls to safeguard cash, and ensure that it is promptly deposited and disbursed appropriately. However, the District did not have adequate controls over its cash and bank accounts. Specifically, the District maintained blank checks that were not prenumbered in an unlocked cabinet. Also, the District's Food Service Fund clearing bank account was not properly reconciled and had a negative check register balance at June 30, 2007, and Food Service Fund clearing account monies were not remitted to the County Treasurer for a 4-month period. In addition, for the Student Activities bank account, the District did not retain student approval for all disbursements from the account, did not properly reconcile the account at June 30, 2007, and did not maintain a record of cash balances for each student club.

Recommendations

To help strengthen controls over cash, the District should:

- Limit access to blank checks to authorized personnel who do not have the ability to approve or record expenditures.
- Prepare complete and accurate monthly bank reconciliations for all bank accounts in a timely manner. Reconciliations should be prepared by an employee not responsible for handling cash or issuing checks and should be signed and dated by the preparer and reviewer.
- Remit Food Service Fund clearing account monies to the County Treasurer to the credit of the Food Service Fund at least monthly. No other disbursements should be made from this account.
- Document student approval for disbursements from the Student Activities Fund in the applicable club's minutes. Retain documentation to support the disbursements, including club meeting minutes, requisitions, purchase orders, invoices, and receipts.
- Maintain a current record of the cash balance of each student club in the Cash Receipts and Disbursements Journal.

Bank reconciliation procedures are outlined on USFR page VI-C-6.

FINDING 4

The District should report accurate financial information

The District has a responsibility to publish and report various budgeted and actual financial information in a timely manner to allow taxpayers and the State to review the District's activities. However, the District did not give required public notice of its proposed expenditure budget and did not revise its expenditure budget after receiving ADE's notification that the budget exceeded applicable budget limits. Also, budgeted and actual expenditures reported on the District's annual financial report (AFR) did not always agree with its revised expenditure budget and its accounting records.

The District did not revise its adopted expenditure budget when ADE notified it that the budget exceeded applicable budget limits.

Recommendations

To fulfill its responsibility to publish and report its budgeted and actual financial information, the District should:

- Publish or mail a copy of the proposed budget, or budget summary, and a notice of the public hearing and board meeting no later than 10 days prior to the meeting.
- Revise its adopted expenditure budget on or before December 15 if ADE notifies the District that its adopted expenditure budget exceeded the General Budget Limit, Unrestricted Capital Budget Limit, or Soft Capital Allocation Limit by \$1,000 or more.
- Ensure its budgeted and actual expenditures reported on the AFR agree with the District's most recently revised adopted expenditure budget and accounting records. A second employee should review the AFR before submitting it to ADE.

USFR Memorandum Nos. 234 and 237 provide guidance on the preparation, publication, and filing requirements for the annual expenditure budget and AFR.

FINDING 5

The District should maintain accurate and complete capital assets and stewardship lists

The District did not protect its investment in capital assets, since it did not have complete and accurate capital assets and stewardship lists.

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. In order to protect its investment, the District should have accurate lists of these assets to ensure they are properly accounted for and safeguarded. However, the District's capital assets and stewardship lists did not include the location and identification number for all assets. Additionally, the stewardship list was not updated for FY 2007 purchases, and the District has not performed a physical inventory within the last 3 years. Further, the District did not prepare a reconciliation of capitalized acquisitions to capital expenditures and did not reconcile the current year capital assets list to the prior year's list.

Recommendations

To help improve control over its capital assets and ensure its capital assets and stewardship lists are accurate and complete, the District should prepare and maintain a complete and accurate capital assets list that includes all equipment with unit costs of \$5,000 or more and useful lives of 1 year or more, and all land, buildings, and related improvements with costs of \$5,000 or more. In addition, the District should prepare a stewardship list that includes all equipment costing between \$1,000 and \$5,000, and update the list annually for items acquired, disposed of, or moved. Both lists should include required information as listed on USFR pages VI-E-2 and 3. Also, the District should perform a physical inventory of equipment at least every 3 years. Finally, the District should reconcile capitalized acquisitions to capital expenditures by fund and its prior year's capital assets list to the current year's list, resolving any differences noted.

Instructions for performing a physical inventory of capital assets are listed on USFR pages VI-E-8 and 9.

FINDING 6

The District should ensure the accuracy of its student attendance records

The State of Arizona provides funding to school districts based on membership and attendance. In turn, the State requires school districts to maintain accurate records to ensure that districts receive the appropriate amount of state aid and local property taxes. However, the District did not report elementary and junior high school student absences correctly, and documentation was not always retained to support partial-day attendance for students who arrived late or left early. Also, the District did not retain documentation for students withdrawn for having ten consecutive unexcused absences and did not enter withdrawal information into its computerized attendance system within 5 working days. Finally, the student counts reported on the District's budget work sheets did not agree to the prior year ADMS 46-1 report.

The District may not have received the appropriate amount of funding since the District did not record membership and absences correctly.

Recommendations

To help ensure that the District receives the correct amount of state and local funding, the District should:

- Record attendance for students in first through eighth grades, if attendance is based on quarter days, as follows:
 - Attendance of at least three-quarters of the instructional time scheduled for the day should be counted as a full day of attendance.
 - Attendance for less than three-quarters of the instructional time scheduled for the day should be counted absent for each quarter of the day not in attendance.
 - Attendance should be taken at least four times daily.
- Retain documentation of the absences for students withdrawn for having ten consecutive unexcused absences.
- Record student entries and withdrawals into the District's computerized attendance system within 5 working days.
- Ensure that student counts reported on the budget work sheets agree to the student counts as reported on ADE's ADMS 46-1 report.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.